



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT OF THE OFFICE OF THE
KENTUCKY STATE TREASURER**

**Made as Part of the Statewide Single Audit
of the Commonwealth of Kentucky**

For the Year Ended June 30, 2001

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EXECUTIVE SUMMARY

Report of the Auditor of Public Accounts Audit of the Office of the Kentucky State Treasurer For the Year Ended June 30, 2001

BACKGROUND: The Single Audit Act of 1984, subsequent amendments, and corresponding regulations, require the auditing of financial statements and the compliance and internal controls applicable to federal moneys received by the Commonwealth. To comply with these requirements, we audited internal controls and compliance at both the central and agency level. This summary is on our audit of one (1) organizational unit of the Commonwealth, the Office of the Kentucky State Treasurer.

The Office of the Kentucky State Treasurer is the chief clearinghouse for revenues that flow into state government. The number of transactions and the amount of money processed is enormous.

Consider these financial statistics related to our audit for fiscal year ended June 30, 2001:

- The Treasury Department made total deposits of \$65,656,568,261 - made up of electronic deposits totaling \$60,876,486,404 and \$4,778,096,916 in checks and \$1,984,941 in cash.
- 2,604,973 checks were deposited.
- \$63,918,292,214 in wire transfer disbursements was made.
- \$8,411,414,700 in checks was written.
- 7,078,833 checks were written.

The Office of the Kentucky State Treasurer also performs the following functions:

- Records, verifies, and pays all federal, state, and local withholding taxes for employees of the Commonwealth.
- Implements court-ordered attachments against the salaries of state employees or moneys owed to state vendors.
- Makes timely deposit of incoming revenues from state agencies.
- Records, monitors, and reconciles all transactions in the state's depository and checking accounts.
- Performs critical functions that ensure compliance with the Federal Cash Management Act Of 1990.

SUMMARY OF AUDITOR'S RESULTS:

Reportable Condition

- The Department Of Treasury Should Notify The Office Of Financial Management In Writing Prior To Applying Multiple Approvals

Other Matters

We also noted other matters of less significance relating to:

- Treasury Should Continue To Maintain Documentation For The Reconciliation Process
- Treasury Failed To Maintain The Necessary Reports Needed To Reconcile Bank Charges
- Treasury Should Ensure Check Write-Offs Are Properly Accounted For In The Accounting System

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INTRODUCTION

**OFFICE OF THE KENTUCKY STATE TREASURER
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2001**

Introduction

The Auditor of Public Accounts (APA), acting as principal auditor in conjunction with various certified public accounting firms, annually performs a statewide single audit of the Commonwealth of Kentucky. This audit allows the Commonwealth to comply with federal audit requirements as set forth in the Single Audit Act of 1984, as amended by Public Law 104-156, and the regulations contained in the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Schedule of Expenditures of Federal Awards

The Office of the Kentucky State Treasurer (Treasury) did not receive federal monies; therefore, a Schedule of Expenditures of Federal Awards is not required.

Schedule of Findings and Questioned Costs

The Schedule of Findings and Questioned Costs consists of three (3) sections:

- Summary of Auditor's Results,
- Financial Statement Findings, and
- Federal Award Findings and Questioned Costs.

The audit finding number and classification (as reportable, material, or other matter) are provided as part of the audit opinion summary. Major programs audited are listed on the Summary of Auditor's Results. The Financial Statement Findings list the audit findings related to the financial statements (required to be reported in accordance with *Government Auditing Standards*). The Federal Award Findings and Questioned Costs lists all findings related to federal awards. Generally, the state agency, CFDA number and program, federal agency, pass-through agency, and the compliance area to which the finding relates are presented. In both reports, reportable conditions and reportable instances of noncompliance are presented first, then material weaknesses and material instances of noncompliance, then other matters.

**OFFICE OF THE KENTUCKY STATE TREASURER
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

Summary Schedule of Prior Audit Findings

Audit findings reported in the Schedule of Findings and Questioned Costs for the fiscal year ended June 30, 2000, as well as any previous findings which have not been resolved, are reported in the Summary Schedule of Prior Audit Findings for the fiscal year ended June 30, 2001. If the APA determines the agency's Summary Schedule of Prior Audit Findings materially misrepresents the status of any prior audit finding, a new audit finding is issued and reported in the Schedule of Findings and Questioned Costs.

The Summary Schedule of Prior Audit Findings is organized based on whether the prior year finding was reportable, material, or other matter. The findings of each classification are categorized as (1) fully corrected, (2) not corrected or partially corrected, (3) corrective action taken differs significantly from corrective action previously reported, or (4) finding no longer valid or does not warrant further action.

Audit Approach

Our audit was conducted in accordance with the Single Audit Act Amendments of 1996, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, *Government Auditing Standards* (also referred to as the Yellow Book), and auditing standards generally accepted in the United States of America. The scope of the statewide single audit for the year ended June 30, 2001 included:

- An audit of the general-purpose financial statements and required supplementary schedules in accordance with auditing standards generally accepted in the United States of America;
- An audit of the internal control applicable to the Office of the State Treasurer to the extent necessary to consider and test the internal accounting and administrative control systems as required.

The APA conducted the audit of internal controls, focusing on the following objective:

- Considering the internal control in order to determine auditing procedures on the general-purpose financial statements of the Commonwealth.

OFFICE OF THE KENTUCKY STATE TREASURER
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)

List of Abbreviations/Acronyms Used in This Report

APA	Auditor of Public Accounts
BS Account	Balance Sheet Account
C1	Cash Receipt Electronic Funds Transfer
C&I	Cash and Investments
CFDA	Catalog of Federal Domestic Assistance
Commonwealth	Commonwealth of Kentucky
CR	Cash Receipt Document
FAC	Finance and Administration Cabinet
FY	Fiscal Year
KST	Kentucky State Treasurer
KRS	Kentucky Revised Statute
MARS	Management Accounting Reporting System
N/A	Not Applicable
OFM	Office of Financial Management
OFMEA	Office of Financial Management and Economic Analysis
OMB	Office of Management and Budget
SAS	Statewide Accounting Services
State Auditor	Auditor of Public Accounts
Treasury	Office of the Kentucky State Treasurer
U.S.	United States

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

Report on Compliance and on Internal Control Over Financial Reporting
Based on an Audit of the General-Purpose Financial Statements
Performed in Accordance With *Government Auditing Standards*

To the People of Kentucky
Honorable Paul E. Patton, Governor
Jonathan Miller, State Treasurer
T. Kevin Flanery, Secretary
Finance and Administration Cabinet

As part of the audit of the general-purpose financial statements of the Commonwealth of Kentucky as of and for the year ended June 30, 2001, we have audited cash functions of the Office of the Kentucky State Treasurer (Treasury), an organizational unit of the Commonwealth as defined by KRS 12.010, and have issued our report thereon dated December 21, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Commonwealth's financial statements are free of material misstatement, we performed tests of Treasury's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of the General-Purpose
Financial Statements Performed In Accordance With *Government Auditing Standards*
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Treasury's internal control over cash functions in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over the cash functions. However, we noted certain matters involving the internal control over cash functions and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over cash functions that, in our judgment, could adversely affect Treasury's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 01-KST-1.

A material weakness is a condition in which the design or operation of one (1) or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over the cash functions would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over cash functions that we have reported to the management of the Office of the Kentucky State Treasurer and is described in the accompanying schedule of findings and questioned costs of this report.

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

December 21, 2001

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**OFFICE OF THE KENTUCKY STATE TREASURER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001**

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

Financial Statement Accounts

Financial Statement Accounts: We issued an unqualified opinion on the Commonwealth's general-purpose financial statements, which included Treasury, as of and for the year ended June 30, 2001.

Internal Control Over Financial Reporting: Our consideration of Treasury's internal control over cash functions disclosed one (1) reportable condition. Our audit also disclosed other matters relating to the internal control over financial reporting for the Treasury.

Compliance: The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Federal Awards and Schedule of Expenditures of Federal Awards

This section is not applicable to Treasury.

Identification of Major Programs Audited

This section is not applicable to Treasury.

Dollar Threshold Used to Distinguish Between Type A and Type B Programs

The maximum dollar threshold used to distinguish between Type A and Type B programs was \$15 million; however, there were no programs applicable to Treasury.

Auditee Risk

The Commonwealth did not qualify as a low-risk auditee.

**OFFICE OF THE KENTUCKY STATE TREASURER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

***Reportable Conditions Relating to Internal Control and/or Reportable
Instances of Noncompliance:***

**FINDING 01-KST-1: The Department Of Treasury Should Notify The Office Of
Financial Management In Writing Prior To Applying Multiple Approvals**

When testing 43 cash receipt documents (C1) for proper approval by Treasury, we found that three (3) were not properly approved. The OFM employee entering the C1 applied one (1) approval, as required; however, the three (3) other necessary approvals were applied by a Treasury employee. In the cash receipt approval process for investments, the OFM employee entering the C1 applies one (1) approval, a manager in OFM applies two (2) additional approvals, and Treasury applies the final approval. Since the Treasury employee who approved these transactions had the authority to apply four (4) approvals, the document was processed without the approval of the OFM manager.

The FAC's Administrative Policy and Procedure Manual is in draft form and not complete on the approval process for C1s relating to investments.

The OFM manager might notice errors relating to investments that a Treasury employee would not notice due to lack of expertise in the investment area. OFM secondary approvers cannot check the C1s for accuracy after Treasury approves them, if they are not notified Treasury applied three (3) approval levels to the C1. In addition, since the Treasury employee has four (4) approval levels, the Treasury employee could create and approve a C1 without anyone else approving or knowing about the document.

Good internal controls dictate a standard approval process for investment cash receipt documents be implemented and followed. The standard approval process should not allow a final approver to apply the same approval levels applied by a secondary approver, in effect overriding the approval of the secondary approver, unless the secondary approver is given written notice (e-mail for example) that the document will be or was approved by the final approver.

**OFFICE OF THE KENTUCKY STATE TREASURER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

FINDING 01-KST-1: The Department of Treasury Should Notify the Office of Financial Management In Writing Prior To Applying Multiple Approvals (Continued)

Section 4.3 of the draft of the FAC's Administrative Policy and Procedure manual states:

OFMEA will be responsible for the creation of all payment, receipt, etc. documents relating to the investment of state funds. The Treasurer's office, which currently prepares these documents, will now be responsible only for applying an approval on cash receipt documents relating to investment of state funds. . . . Agency will prepare **C1** document to record the receipt of funds from one (1) of the following:

- Sale of Investment
- Maturity of Investment
- Interest Income

The **BS Account** must be coded on the **C1** document. Route the document to the Division of Statewide Accounting Services for approval. . . . The Division of Accounts approves the **C1** documents and routes the ones pertaining to the investment of state funds (OFMEA) to the Treasurer's Office for their approval.

At present, the Division of Statewide Accounting Services does not apply any approvals to the C1 documents

Recommendation

We recommend adjusting the approval levels of Treasury employees so no employee can create a cash receipt document and apply final approval to the document.

Also, OFM approvers should be notified in writing (e-mail) if Treasury approves a document without approvals being applied by a secondary person in OFM.

Relating to the Manual, we recommend FAC:

- Update the manual to indicate the secondary approval levels applied by the OFM manager, assistant director, or director.
- Either remove reference to the Division of Statewide Accounting approval of C1 documents or C1 documents should be routed to the Division for approval immediately.

**OFFICE OF THE KENTUCKY STATE TREASURER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

FINDING 01-KST-1: The Department Of Treasury Should Notify The Office Of Financial Management In Writing Prior To Applying Multiple Approvals (Continued)

Recommendation (Continued)

- Define in detail the authorization of Treasury in approving documents without a secondary approver and refer to this when discussing Investment documents.
- Release the manual in final form.

Management Response and Corrective Action Plan

Finance and Administration Cabinet Response:

The Treasurer's Office (Treasury) is the final approval for all cash receipts documents (CR and C1) in the Advantage Financial application. They apply the 4th level of approval to the C1 documents created by OFM to record the sale or maturity of investments or the receipt of interest income. Treasury does not approve the documents until they reach a PEND4 status (after OFM has applied their approvals).

There were a few instances where Treasury approved a C1 document before it reached PEND4 status. OFM reported this to the Office of the Controller. A meeting was held with representatives from the Treasurer's Office, OFM and the Controller's Office. Treasury agreed they would not approve the OFM C1 documents until it reached a PEND4 status. If, for some reason, there were a need to approve one in a status other than PEND4, Treasury would need to have a written (E-mail) authorization from OFM.

The few "non-PEND4" C1 documents that Treasury approved for OFM were done so because of "timing" problems. To help resolve this OFM and Treasury have been set up to use the Workflow functionality in Advantage. After the initial user in OFM creates the C1 (and applies the first approval) an E-mail is sent to the OFM Manager notifying him that there is a C1 document in PEND2 status awaiting his approval. At this point, the OFM Manager can go into Advantage and approve the document. This has decreased the "agency" processing time for C1 documents.

**OFFICE OF THE KENTUCKY STATE TREASURER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

FINDING 01-KST-1: The Department Of Treasury Should Notify The Office Of Financial Management In Writing Prior To Applying Multiple Approvals (Continued)

Management Response and Corrective Action Plan (Continued)

Treasury needs to have the authority to apply/remove all approval levels on cash receipts documents. It is Treasury's responsibility to see that the documents are accurately recorded in Advantage, which is why they have the final approval. At times it may be necessary for Treasury to correct a C1 document.

In Advantage, a partially approved document (Ex. PEND4 status) is always "read-only". In order to make any changes to a document all the approvals have to be removed before the change(s) can be made. After the change is made all approvals have to be applied again. Treasury will notify the agency (who prepared the C1) if any changes need to be made. If possible, the agency will remove the approvals, correct the document, and apply the "agency" approvals again.

It may be necessary for Treasury to do this. If, for example, it is the last day of the calendar month/fiscal year and Treasury is not able to contact a user in the agency (who has entered a document incorrectly) to do this, they need to have the authority to change the document to make sure funds are recorded in the correct accounting period/fiscal year.

Office of the State Treasurer Response:

The Treasurer's Office is the final approval for all C1 and CR documents. It is the Treasurer's responsibility to make certain that the MARS deposit documents are in agreement with the amount being deposited, either electronically or by physical deposit. If there is an error, the Treasury Department contacts the department preparing the deposit document to make the needed correction. If the necessary individual in the departments cannot be reached, and if there is a deadline which has to be met, the Treasury Department personnel will make the corrections needed to allow the documents to be posted. They will then notify the departments of the changes. To make these necessary changes in a timely manner, it is absolutely essential that the Treasury Deposit Room and Accounting personnel have the necessary MARS authority to apply/remove all approval levels on cash receipt documents. The Treasurer's Office does not exercise this approval authority except when absolutely necessary to allow deposits to post in a timely manner.

**OFFICE OF THE KENTUCKY STATE TREASURER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

FINDING 01-KST-1: The Department Of Treasury Should Notify The Office Of Financial Management In Writing Prior To Applying Multiple Approvals (Continued)

Management Response and Corrective Action Plan (Continued)

The first line of action is always to contact the departments preparing the deposit documents to have them make the corrections. If this fails, and a deadline has to be met, the Treasury will make the changes and give the necessary approvals.

There is no risk involved to the Commonwealth in this procedure. These are, after all, deposits and not expenditures. If an accounting error were to be made by the Treasury staff in making the corrections or releasing the documents, that error can be corrected after the fact. This possibility is far preferable to the alternative of not having deposits post in a timely manner, especially at those critical times when Revenue estimates and financial reports are depending on the deposit data.

Other Matters Relating to Internal Control and/or Compliance:

FINDING 01-KST-2: Treasury Should Continue To Maintain Documentation For The Reconciliation Process

Treasury has worked throughout FY 2001 to perfect the bank reconciliation processes. There was only one (1) month in the reconciliation process that all supporting documentation was not present, which did not allow for adequate test procedures. However, we were able to adequately test portions of the reconciliations for all other months and accounts.

Recommendation

Treasury should continue to improve controls to ensure that all supporting documentation for the reconciliation process is secure and properly stored.

**OFFICE OF THE KENTUCKY STATE TREASURER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

FINDING 01-KST-2: Treasury Should Continue To Maintain Documentation For The Reconciliation Process (Continued)

Management's Response and Corrective Action Plan

The Treasury Department remains at a loss to explain why the original supporting documentation for the August 2000 cash reconciliation was missing from the files. Even though much of the documentation was able to be recreated from data processing records, the disappearance of the original records is a mystery. During the time period in question, the "Reconciliation Team" comprised of numerous employees from both the Treasury and the Controller's Office was still intact, working to devise an effective bank reconciliation process in MARS and to balance past months under the new system. Many different people were using the records at that time. Evidently someone failed to return the records to their proper location. The reconciliation process is now back in the hands of the staff of the Treasury Accounting Branch. The staff members in that area have a very effective filing system in place for the supporting documentation for the monthly reconciliations. They recognize the importance of this documentation for both office operations and for audit purposes. There is no longer any need to release the documentation to individuals working outside of the Accounting Branch. We do not anticipate any future problems with the retention of this very important information.

FINDING 01-KST-3: Treasury Failed To Maintain The Necessary Reports Needed To Reconcile Bank Charges

When the auditor performed a reconciliation of bank charges from Farmers Bank, Treasury could not provide the QST30P reports for any month prior to February 2001.

Recommendation

Treasury should improve controls to ensure that supporting documentation is secure and properly stored.

**OFFICE OF THE KENTUCKY STATE TREASURER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

FINDING 01-KST-3: Treasury Failed To Maintain The Necessary Reports Needed To Reconcile Bank Charges (Continued)

Management's Response and Corrective Action Plan

The QST30P Checks Paid Reports for the first part of FY 2001 were inadvertently destroyed during the restructuring and renovating of the Treasury Computer Room in September of 2001. These records had been maintained in the files of the former computer services head, who retired at the end of August. The people involved in the renovation did not realize that these particular printouts, out of the many that were being discarded, were needed for future audit purposes. The reports had been utilized by the Treasury staff in the monthly reconciliation of the banking services bills, and any discrepancies had been resolved long before. The only remaining value of the reports after that point was for audit purposes by the State Auditor. To prevent these reports from being discarded prematurely in the future, we will move the storage site of the reports from the Data Processing Section to the Accounting Section, where the monthly reconciliation is actually performed.

FINDING 01-KST-4: Treasury Should Ensure Check Write-Offs Are Properly Accounted For In The Accounting System

Check write-offs are to be completed after one (1) year of its date of issue. KRS 41.370 states "any check issued by the State Treasurer shall not be valid as an order for payment after one (1) year from its date of issue and this limitation shall appear on all checks issued. The State Treasurer is authorized to clear the records of all such unpaid checks and credit the amounts to the fund against which it was originally drawn." During testing of the check write-off process, we determined it took an additional 1-5 months, past the one-year requirement, for the write-off process to be totally completed. Treasury and the Finance Administration Cabinet failed to ensure check write-offs were completed in a timely manner and accurately reflected in the MARS accounting system.

Effective control procedures for the writing off of checks in the MARS system should be considered and implemented. Without adequate timeliness of these procedures, the MARS accounting system will not accurately reflect the current cash balance or fund balances.

Recommendation

We recommend Treasury and the Finance Administration Cabinet improve controls to ensure that check write-offs are done in a timely manner so that the MARS accounting system may reflect accurate account balances.

**OFFICE OF THE KENTUCKY STATE TREASURER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

FINDING 01-KST-4: Treasury Should Ensure Check Write-Offs Are Properly Accounted For In The Accounting System (Continued)

Management's Response and Corrective Action Plan

A monthly stop payment order is placed by the State Treasurer with Farmers Bank on all checks that have been uncashed for one calendar year. This blanket stop payment request is an integral part of the Treasurer's monthly reconciliation procedure. Checks cannot be cashed after one year, as prescribed in KRS 41.370. Any checks over one year old, which are erroneously paid over a stop payment are returned to Farmers Bank for credit. The Treasury Department is in compliance with KRS 41.370 in this process.

The accounting procedure "to clear the records of all such unpaid checks and credit the amounts to the fund against which it was originally drawn" is currently being performed by the Division of Statewide Accounting Services in the Controller's Office, and not by the State Treasurer. The Division of Statewide Accounting Services assumed this duty during the transition to MARS.

The Treasurer's Office will work with SAS to try to see that the accounting procedure is done in a more timely manner. We will incorporate a reminder to SAS to perform the escheat transaction into our monthly reconciliation procedure.

Auditor's Reply

We concur that the issue is not a compliance problem. However, as your response indicates, improved efforts should be made to clear the accounting records. This should occur in a faster timeframe.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no federal award audit findings and/or questioned costs.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**OFFICE OF THE KENTUCKY STATE TREASURER
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2001**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
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Reportable Conditions

(1) Audit findings that have been fully corrected:

There were no findings for this section.

(2) Audit findings not corrected or partially corrected:

There were no findings for this section.

(3) Corrective action taken is significantly different from corrective action previously reported:

There were no findings for this section.

(4) Audit finding is no longer valid or does not warrant further action:

There were no findings for this section.

Material Weaknesses

(1) Audit findings that have been fully corrected:

FY 00	00-KST-1	Treasury Should Improve Procedures For The Reconciliation Process And Maintaining Supporting Documentation	N/A	\$0	Resolved during FY 01.
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(2) Audit findings not corrected or partially corrected:

There were no findings for this section.

(3) Corrective action taken is significantly different from corrective action previously reported:

There were no findings for this section.

(4) Audit finding is no longer valid or does not warrant further action:

There were no findings for this section.

**OFFICE OF THE KENTUCKY STATE TREASURER
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Other Matters</u>					
<i>(1) Audit findings that have been fully corrected:</i>					
FY 00	00-KST-3	Treasury Should Improve Controls To Ensure Voided Checks Are Properly Maintained	N/A	\$0	Resolved during FY 01.
FY 99	C&I-5	Treasury Should Improve Procedures Over Securing And Storing Supporting Documentation	N/A	0	Resolved during FY 01.
<i>(2) Audit findings not corrected or partially corrected:</i>					
FY 00	00-KST-2	Treasury Should Improve Controls To Ensure Check Write-offs Are Done In A Timely Manner	N/A	0	Our testing indicated that controls over the write-off process are not operating effectively.
<i>(3) Corrective action taken is significantly different from corrective action previously reported:</i>					
There were no findings for this section.					
<i>(4) Audit finding is no longer valid or does not warrant further action:</i>					
There were no findings for this section.					

